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THE SOUTHERN RAILWAY & STEAMSHIP ASSOCIATION.*

About the year 1860, after the railroads from the East had been pushed through to Chicago, and the short independent roads began to be united in interest and in management, the sharp competition that has become such a marked feature in modern railroad operations first came into prominent notice. Up to that time, each road had used only its own cars, the freight and passengers being transferred at the terminus. As it became necessary for connecting roads to work together, and make through lines requiring no transfers, each road began to work for the whole line of which it formed a part as against other similar lines or combinations.

The development in the South was much slower; and combination and competition, though inevitable, came more tardily. It was not till the Southern country had been laid waste by the contending armies, and its business brought to a standstill, that really sharp competition became the rule. Then the country was found to be supplied with more roads than were needed. According to Mr. Powers, afterwards Commissioner of the Southern Railway & Steamship Association, "there was not as much business as all could do. Indeed, any one of these lines, with a comparatively small output for rolling stock, can do all the business to any, indeed to all, competitive points named in our circulars."† With such a condition of affairs, it was inevitable that each road should try to get all the business possible. This was

*This paper was originally prepared as a thesis in one of the courses in political economy in Harvard University. It has been somewhat revised for publication in the present shape. The main source of information has been in the printed volumes of *Circular Letters of the Southern Railway & Steamship Association*, hereafter referred to simply as *Circular Letters*. In the references to them, the number preceding the title indicates the volume.

In the Appendix is printed the text of the agreement on which the Association rests, as it stood immediately before and after the passage of the Interstate Commerce Act of 1887.

†3 *Circular Letters*, 991.

done by means of rebates or open cutting of rates, which soon brought them to a ruinously low range. At this stage of events, agreements to restore and maintain rates were not infrequently made; but, as Mr. Fink subsequently remarked in one of his reports to the Association, these agreements were generally made by the managers "with the purpose merely of practising deception upon each other. Starting from a higher scale of rates, they secured, for a short period at least, some remuneration for the work performed, until the low rates were reached again."* Mr. Fink estimated that by means of these rate wars the gross earnings of the Southern railroads were reduced about forty-two per cent. below what regular rates would have yielded.† This forty-two per cent. was in many cases equal to the whole net earnings which could have been derived from the competitive business at the regular rates, showing that the business was really unprofitable. The roads in the South were, in consequence, practically worthless to their owners. The following language was used in 1876 by a committee of the stockholders of the Central Railroad & Banking Company of Georgia: "It is conceded that the property of your stockholders is on the brink of being sunk forever; and the bankruptcy of a number of your roads is imminent, if not even now a fact."‡ This was the condition of affairs which led to the formation of the Southern Railway & Steamship Association.

Several isolated attempts were made to bring about a division of business before the final comprehensive scheme was adopted. Thus, in 1873, the roads running out of Atlanta, the Central, the Georgia, the Western & Atlantic, and the Atlanta & Charlotte Air Line, agreed upon divisions of the cotton business.§ The accounts were kept by the superintendent of the Western & Atlantic, and were settled after some delay and dispute. This agreement covered only the cotton season of 1873.

On December 21, 1874, a meeting of the Southern roads was held at Macon, Georgia, to devise some permanent means

* 1 *Circular Letters*, 277.

† 1 *ibid.*, 278.

‡ 2 *ibid.*, 338.

§ 22 *ibid.*, 1619 (Report of the General Commissioner).

of settling the difficulties that were constantly arising between them. Adjourned meetings were held in January, 1875, when an agreement was drawn up and a provisional division of business agreed upon for the principal competitive points. Several meetings for perfecting the agreement were held during 1875; and on October 13 of that year Mr. Albert Fink was elected General Commissioner.* This was in itself a favorable omen for the experiment; for Mr. Fink had been General Superintendent of the Louisville & Nashville Road, and was familiar with the railroad business of the South. Furthermore, it was largely on a plan laid down by him in a letter to the president of the convention that the Association was formed. He accepted office only for the purpose of organizing the pool and setting it in motion, and served but six months. Notwithstanding his short term of office, it is to Mr. Fink that the Association owes much of its success. The Southern Association was his first experiment in arranging railroad pools and agreements, and was, in fact, with one exception, the first practical pooling arrangement in this country.†

The Association, as its name implies, was intended to include all of the Southern transportation companies. Any road south of the Ohio and Potomac Rivers and east of the Mississippi could become a member. Any steamship company connecting these roads with Boston, Providence, New York, Philadelphia, or Baltimore was eligible. Its main object was to remedy the evil of excessive competition, which was working the destruction of all Southern roads, by maintaining rates and securing a fair distribution of business. To accomplish these ends, an annual convention was held, to which each road sent a representative. This convention elected the President, a permanent General Commissioner, a Secretary and Auditor, a Board of Arbitration, and an Executive Committee. It voted on the admission of new members, and adjusted all matters that could not be determined by the General Commissioner, a two-thirds vote being necessary for any action.

* 1 *Circular Letters*, 18.

† The exception was the so-called "Omaha Pool," first formed in 1870 between the Burlington, Rock Island, and North-Western Roads.

The Commissioner had general charge of the business of the Association, but referred to the convention, or to the managers of the roads interested, whatever delicate matters he did not feel able himself to deal with. His decisions, orders, recommendations, statistics, together with the minutes of the conventions and committee meetings, were communicated to the various roads by means of circular letters. These have been collected, and the twenty-four volumes in which they are preserved form the chief source of information regarding the history of the Association.

The practice of referring details to the convention, adopted in the first agreement, proved cumbersome and impracticable. Accordingly, there were occasional informal meetings of the various managers; and in 1883 * an Executive Committee was appointed, consisting of the manager or executive officer of each of the principal lines in the Association. This Executive Committee was given jurisdiction over all matters relating to the joint traffic, but could act only by unanimous consent. It could delegate to sub-committees jurisdiction over matters especially committed to their charge. Such a sub-committee was the Rate Committee; though a Rate Committee, with powers derived from a different source (the convention), had existed for several years before this. Having charge, in the first instance at least, of rates and classifications, this sub-committee became one of the most important branches of the organization. It consisted of the general freight agents of each of the lines in the Association. The Rate Committee, like the Executive Committee, could act only by a unanimous vote; and any member could demand that a question be referred to the Executive Committee.† This condition of a unanimous vote was probably meant to prevent any combination or clique of lines from bettering themselves at the expense of the others. But the result, as might be expected, was that it was often impossible to reach a decision, even on comparatively unimportant matters. The question would then go to the Executive Committee, where a similar state of affairs was likely to be met, and finally to the Board of Arbitration. This in-

* 22 *Circular Letters*, 352.

† See the Agreement, Articles 7 and 10.

volved much time and expense, even in cases where a majority vote in either committee should have been amply sufficient. But it may be said, on the other side, that by this reference of the matter to arbitration the dissenting roads were sure of an entirely impartial decision, and would be much more likely to abide by it than when outvoted in the committees.

By the first agreement (1875),* provision was made for reference of any disputes that might arise to the Commissioner as arbitrator. Then, if any member disapproved of his decision, the matter was referred to outsiders selected by the contestants in the case. In one case, Mr. Charles Francis Adams was so chosen as referee.† But this scheme of bringing in strangers, busy with affairs of their own, was not always practicable. Accordingly, some years later, an Arbitrator was elected as a permanent officer of the Association. His duty was to receive written arguments, and, in connection with the Commissioner, to decide all cases that might be referred to him. At the ninth annual convention,‡ October 24, 1883, the number of the Arbitrators was increased to three, the present number.

As soon as possible after the completion of the organization and the election of the Commissioner, a permanent division of business was agreed upon for Atlanta, Augusta, and Macon. This was put into effect on November 19, 1875. Each road was expected to carry, as nearly as possible, the appointed amount. In case the exact proportions could not be secured, one-half a cent per ton per mile was allowed each road for any excess carried by it, to cover the expense of carriage; and the remainder of the revenue was paid to the Commissioner to be transferred to the credit of those roads carrying less than their proportions.§ Daily returns of the competitive business were made to the Commissioner, whose duty it was to publish monthly tables of the amount of freight carried by each road.

This would have done very well if all the roads had honestly performed their part. But such was not the case.

* 1 *Circular Letters*, 7.

† 14 *ibid.*, 35.

‡ 14 *ibid.*, 45.

§ This was changed later. Twenty per cent. of the revenue was allowed in the last years of the pooling arrangement.

Down to July 31, 1876, when Mr. Virgil Powers took the place of Mr. Fink, only $62\frac{1}{2}$ per cent. of the merchandise balances had been settled.* The remaining $37\frac{1}{2}$ per cent., and all the balances on cotton, still remained unpaid. A compromise was arranged for the remainder, and the amount agreed upon was at last nearly all paid. But, as the same trouble was likely to recur, the Commissioner proposed that each road should deposit to his order a certain percentage of the revenue on each way-bill of pooled business. In June, 1877, a convention of the roads agreed to a deposit of twenty per cent.† In 1887, in his annual report,‡ the Commissioner was able to say that “since 1877 all balances have been paid and rates thoroughly maintained, except for about a month from February 14 to March 15, 1878, during which time there was a war of rates between the roads.”

At the outset, the pool covered only the business with the Eastern cities. The Western business was not pooled till the year before the Interstate Commerce Act was passed. On this unpooled business, rates were being constantly cut, and there was much complaint both by the roads and by the public. To remedy this evil, another organization of Southern roads was formed in 1886, known as the “Associated Roads of Kentucky, Alabama, and Tennessee,”§ and the pooling arrangement, which had operated so successfully with the Eastern business, was extended to the business to and from the West. In 1887, the new organization was united with the Southern Railway & Steamship Association; and the Commissioner of the former Association, Mr. J. R. Ogden, was elected Vice-Commissioner of the latter and given charge of the Western business. ||

One further point in the history of the organization needs to be spoken of before we turn to its practical workings. The agreement contemplated putting both passenger and freight business under the rules of the Association. At first, however,

* 21 *Circular Letters*, 1679.

† 3 *ibid.*, 861.

‡ 21 *ibid.*, 1620.

§ 21 *ibid.*, 1620.

|| 22 *ibid.*, 138, 1621. At the end of the year, however, this office of Vice-Commissioner was abolished.

freight traffic alone was regulated. In 1885 the Commissioner was asked to submit a plan for bringing the passenger business under the control of the Association, and in November a plan was submitted to the Executive Committee.* It was never acted on by the Association as such; but it was taken in hand by the roads, and another Association was formed, called the Southern Passenger Association. It is distinct more in name than in practice. The two Associations are composed of the same roads, and the same person is their General Commissioner. The Southern Passenger Association is now practically a part of the Southern Railway & Steamship Association.

So much for the history and general organization of the Association. The Commissioner, the Executive and Rate Committees, and the Arbitrators are the effective parts of the machinery; and to their functions and the modes of exercising them we will now turn.

The General Commissioner has always been the executive officer of the Association. His duty was primarily to carry out all laws passed by the convention or the committees. But it went beyond this. He had a conditional legislative power. By written authority he was actually made a special agent of each of the roads, and was supposed to look after the interests of all alike. One of his most important duties was, in connection with the Auditor, to collect and publish accounts of the business transacted, and statistics on any other matters that would be of assistance to the roads. As an example of this function, we may mention certain tables in regard to the capacity of the different Tank Line cars for the transportation of oils. It had often been impossible to ascertain the exact weight of shipments of oil; and it was arranged that in future the capacity of the cars, as given in these tables, should be taken as the basis in calculating the charges.†

The Commissioner and Auditor were to keep accounts of the business done. To enable them to do this, the agents of the initial roads were ordered to forward daily to the Commis-

* 17 *Circular Letters*, 1622; 18 *ibid.*, 193.

† 20 *ibid.*, 107; and 22 *ibid.*, 391.

sioner copies of all way-bills of through business.* At the same time, they were to deposit in bank to the order of the Commissioner twenty per cent. of the revenue from such business. The accounts, which were to be made out and published monthly, were divided into nine tables. Table A showed the movements of merchandise during the month from each Eastern city to all division points; the route, amount performed in pounds and revenue, allowance for carriage and net revenue to be divided, percentages and revenue allotment, excess in the amount carried, and the cash deposited to the order of the Commissioner.† Table B gave similar information for the two months previous, enabling a manager to tell whether his road was gaining or falling behind the other lines. Tables C and D gave similar information about the cotton business. E and

* See the Agreement, Article 18.

† By way of illustration, I give the Commissioner's Table A for October, 1882, on New York traffic:—

NEW YORK TO ATHENS, GA. Name of Road and Route.	Gross Pounds.	Gross Revenue.	Allowance for Transportation.	Net Revenue Di- vided. Debit.	Per cent. agreed on for Each Line.	Net Revenue Al- lotted. Credit.	Revenue in Ex- cess. Net Debit.	Revenue in Defi- cit. Net Credit.	General Com'r's Deposit, 20%.
N. E. R.R. via Pied. A. L., .	149,687	\$1,045.85	\$209.17	\$836.68	57.5%	\$1,029.69	. .	\$193.01	\$201.55
Ga. R.R. via Savannah, .	18,800	181.85	36.37	145.48	17.	304.43	. .	158.95	34.18
Ga. R.R. via Charleston, .	149,332	971.94	194.39	777.55	17.	304.43	\$473.12	. .	194.12
Ga. R.R. via A. C. L., . .	2,205	22.11	4.42	17.69	5.1	91.33	. .	73.64	4.43
Ga. R.R. via Port Royal, .	2,280	16.70	3.34	13.36	3.4	60.88	. .	47.52	3.34
Totals, . .	322,304	\$2,238.45	\$447.69	\$1,790.76	100 %	\$1,790.76	\$473.12	\$473.12	\$437.62

To keep these various accounts, of course a larger force of clerks was necessary, entailing a considerable expense. This expense was met, first, by a yearly membership fee of \$300 for each road, and, second, by assessments on the various roads in proportion to their revenue from competitive business. For the year ending May 31, 1889, the expenses of the Association were a little more than \$51,000.

F showed the gross revenue and balances for the month at each point and at all points combined, for merchandise and cotton respectively. G gave the gross revenue and balances for merchandise and cotton combined, at all points, and the cash deposited for the month. This is the table upon which the settlements were made. H gave the gross revenue from merchandise and cotton, and the two combined, for the two months previous. I gave the amount of the Commissioner's deposits, where deposited, the character of the business on which deposit was made, and by whom it was made. In 1883 another set of tables was added, showing the movements of cotton factory goods. By means of these various tables, the manager of each road was enabled to see at a glance just what business there was to compete for, and what share his road was getting. They showed him, also, the basis on which the percentages of division were calculated.

Having informed the roads by means of these tables of the amount of their indebtedness, and of the business from which it arose, the Commissioner and Auditor acted as clearing-house agents for the settlement of the accounts. The twenty per cent. deposit of the debtor companies was applied as far as possible to paying their balances, and sight drafts were drawn by the Commissioner for any excess. The deposits were relied on, however, to pay the greater part of the indebtedness. In September, 1884,—to take a month at random,—out of the sixty lines (routes) for which accounts were kept, twenty-one had carried more than their share of freight. Out of these twenty-one, ten had deposits large enough to cover all indebtedness. With five more, the excess was less than \$100; while only six of the twenty-one owed more than \$100 in addition to what their deposits would cover. The deposit practically assured a prompt settlement of all balances. Whatever remained of the twenty per cent. after paying the debts was returned monthly to the depositing companies.

The Commissioner's accounts and statements obviously could not be accepted as conclusive unless the right was given him to examine the books of any member of the Association,

as a safeguard against fraudulent or irregular reports. This right was given by Article 18 of the Agreement. Some instances of the mode in which it was enforced will serve to illustrate the practical working of the Association. In the fall of 1886, one of the Inspectors, at the order of the Auditor, attempted to examine the books of the Alabama Great Southern Road at Chattanooga, in order to trace some cotton shipped from Atlanta. The officials of the road refused to allow this examination; and the matter was brought up in the Executive Committee. A vote of censure on the road was there passed, and the action of the Alabama Great Southern in this case was treated by the committee simply as a breach of the agreement.* In 1883, however, the power was more vigorously exercised. It had been charged that rebates were being paid on compressed cotton via the Atlantic ports; and the Commissioner was instructed by the Executive Committee to examine the books of the railroad companies and the steamship companies carrying to and from these ports, for the purpose of ascertaining whether such rebates had been paid.† Another case, even more striking, came up in July, 1885.‡ The matter of rates and rebilling from the West was under discussion. The Rate Committee requested the Commissioner to examine the rebilling records of the Nashville, Chattanooga & St. Louis Railroad, and to report the extent of such business, making a separate statement of each class of freight rebilled, under what divisions and to what points; and also a statement of the quantity of similar business shipped at Nashville rates. The examination was made, and a report of fifteen or more printed pages presented a few weeks later.§

We turn now to another important part of the Commis-

* 20 *Circular Letters*, 121.

† 14 *ibid.*, 213.

‡ 17 *ibid.*, 1625.

§ 18 *ibid.*, 364. Other statistics were collected by the Commissioner. Among them were some that must have been gathered in any case; but the matter was much simplified when one man gathered the information for all the roads. Such, for example, were the tables of the "arbitraries" charged by the Northern roads. The Southern Association made rates to New York, Providence, Boston, and other cities. To find the rates on cotton (the chief North-bound business) to the interior New England manufacturing town, the arbitraries given in these tables were added to the regular Boston rates, and gave a desirable uniformity in the rates.

sioner's functions. The object of the Association was primarily to maintain rates. Theoretically, this was done; but in practice there were many irregularities. Goods were often classified wrongly or were underweighed. Shippers often misrepresent the goods when the railroad agents are unable to ascertain for themselves their quality and class. Often the agents are wilfully negligent; by not being too watchful in classifying and weighing, they cut rates and draw the traffic to their lines. To remedy this evil, in 1886 (July 16) the Commissioner was empowered* to appoint two Inspectors of Weights and Classifications. The same experiment had been tried by the South-western Association, and some others, and had proved very successful.† The need that had existed for some such check is shown by the following table of the work accomplished by the Inspectors in the first year after they were appointed: ‡ —

	<i>Number of Shipments corrected.</i>	<i>Weight corrected.</i>	<i>Increase in Revenue.</i>
Oct. 1, 1886, to June 1, 1887,	10,173	11,992,037	\$32,057.35
One month, May, 1887,	1,829	1,649,348	5,112.21

This of itself shows a substantial increase in revenue. But the effect of the new method was much greater than the figures of corrections would indicate. "The knowledge that checks have been provided makes shippers more careful than they would be otherwise. Hence attempts to evade the classification are not so numerous as they formerly were, or as they would be, did not the shippers know that we were watching to prevent irregularities."§ Whenever the Commissioner suspected that fraudulent practices were being followed, he would send an Inspector to examine and, if possible, stop them. The Inspectors were also sent to examine the books of a company, if it was suspected that business was done without being reported. In 1886, the East Tennessee, Virginia & Georgia

* 19 *Circular Letters*, 1717. The number of Inspectors has since been increased.

† 19 *ibid.*, 1689.

‡ 21 *ibid.*, 1627.

§ Letter from J. W. Midgely, Commissioner of the South-western Association, to Mr. Powers, in 19 *ibid.*, 1690.

road was charged with failing to report all the cotton carried to Brunswick. An Inspector examined the books of the company, and watched the shipments for some time, in this case without bringing to light any irregularity.

In the early part of this paper, it was said that the Commissioner, in addition to his executive powers, had a limited legislative power. This was in the matter of rates. The first step in this direction was taken in 1876* (before the existence of the Rate and Executive Committees), when the annual convention of the Association adopted the rule "that the General Commissioner shall regulate the division of the cotton business, including past operations, by requiring companies in excess at any point to advance rates sufficiently to allow the business to go over the lines which are short of their agreed proportion." Another grant of legislative powers was made to the Commissioner in February, 1888,† when the Executive Committee authorized and instructed the Commissioner to make such reductions as were necessary to meet the competition of the Savannah River boats. This was not acted upon by the Commissioner; for on March 15 the Rate Committee itself, in order to meet the competition, reduced the rates in question. But it was not so much the exercise of the power as the fact that at times the Commissioner had the power to change rates, which is to be noted. The power is not general: it is only given in special cases, and, as a rule, for a limited time. The Commissioner issues the rate circulars and gives notice as to when they shall go into effect; and in practice it is to him that all look for authoritative statements in the matter of rates.

The second important part of the machinery of the Association consists of the Executive Committee and the Rate Committee, whose formation and powers have already been described. We may now examine some particular cases illustrative of these powers. It will be most convenient to describe them irrespective of whether they came up in the Rate Committee or Executive Committee. The reader will remember that the Executive Committee is the higher court, as it

*2 Circular Letters, 390.

† 22 *ibid.*, 282.

were, and that any matter can be appealed to it from the Rate Committee.

Of course, the first duty of the Rate Committee is to make rates to and from the competitive points. This statement seems simple, but it involves more than appears at the first glance. It brings up the questions of (1) division of the business on which rates have been made; (2) differentials between different towns; (3) classification of goods.

A fixed rate having been agreed upon for the competitive business, a division of the business follows almost of necessity. There are always differences in the position or equipment of the competing roads. The best equipped and most convenient road would naturally get most of the business. This would ordinarily lead to a cutting of rates, and that, too, as is usual in such cases, by the road least able to give low rates. The only way to prevent a continual struggle is to assure the weaker road a certain proportion of the business. In the early days of the Association, divisions were agreed upon by the managers of the roads for eight points,—Atlanta, Augusta, Macon, Newnan, West Point, Opelika, Montgomery, and Selma. These divisions were based on the normal carrying capacity of the roads, as shown in the business of the years past. For example, the divisions for Atlanta were: * —

	<i>Cotton.</i>	<i>Merchandise.</i>
Central R.R.,	31.7%	26 $\frac{3}{4}$ %
Georgia R.R.,	31.7	40
Atlantic & Richmond Air Line R.R., . . .	15.8	16 $\frac{3}{4}$
Western & Atlantic R.R.,	15.8	16 $\frac{3}{4}$
Atlanta & West Point R.R.,	5.

As new roads were built, new allotments of business were demanded or allotments at new places. In 1886, the merchandise business of 15 places was pooled; and at Atlanta the number of pooled routes had grown from 5 to 12.

Again, some of the old lines, by offering greater facilities, might feel able to demand a larger proportion of the business. There was an important case of this sort in 1884, on the Montgomery cotton business. From January, 1881, to August,

*1 *Circular Letters*, 1.

1883, the business had been pooled on the following percentages : * —

East Tennessee, Virginia & Georgia, via Calera,	14%
Louisville & Nashville, via Mobile, and North, via Louisville & Nashville,	48
Montgomery & Eufaula and Western of Alabama,	38

In 1883, the East Tennessee became dissatisfied with this division, and refused to renew the agreement, asserting that, to avoid paying the heavy penalty of \$1.50 per bale for excess carried, they had been compelled to turn over to their competitors several thousand bales of cotton. In 1883-84, the cotton business from the point in question was not pooled, and the East Tennessee Road carried over twenty-seven per cent. of the business, even though full Association rates had been charged. The next year, the matter came up in the Executive Committee, where an attempt was made to settle it. This failing, it went to the Arbitrators for a decision. They gave a division of the business as follows : † —

	<i>New Division.</i>	<i>Old.</i>
East Tennessee,	22%	14%
Louisville & Nashville,	42	48
Western of Alabama and Montgomery & Eufaula,	36	38

A similar dispute arose at about the same time over the Selma cotton business. The Executive Committee agreed to refer the matter to an arbitrator. Immediately thereafter, the initial roads entered into a contract, as provided in Article 20 of the Agreement, dividing the business according to his decision.

In close connection with the making of rates is the matter of classification. In the classification of the Association, as it stood in 1886, there were specified in round numbers 1,250 articles. The classification of the Association was adopted in the first instance by the annual convention of 1878, but since then has been in the hands of the Rate Committee. Even the first classification was drawn up and proposed by a committee corresponding to the present Rate Committee.‡ The result

* Argument before the Board of Arbitration by the East Tennessee, Virginia & Georgia Railroad.

† 16 *Circular Letters*, 41.

‡ 19 *ibid.*, 1687.

has been a single uniform classification for the whole Southern territory, in place of the chaos which had existed before. "In July, 1876, the Eastern lines had two classifications. The Savannah line used 9 classes, and the Charleston and Coast lines worked 5 and 6 classes. The Western lines were using the 'Green Line' classification, with a number of 'Specials.'"^{*} The advantage of having one classification for all the roads in a section of the country, or even for the whole country, if that were possible, is obvious.

The third task involved in the making of rates is the fixing of the differentials between neighboring cities. The general object in fixing the differentials was to make such rates that all cities similarly situated should have the same chance in the competition of trade. Thus a New York merchant would have to pay the same rates, whether he shipped his goods to Chattanooga, Dalton, Rome, Atlanta, Athens, Gainesville, Anniston, or Birmingham. On the other hand, Boston, New York, Philadelphia, were treated alike, the rates to and from any given Southern point being the same. Norfolk, Portsmouth, and Richmond formed another group; and, again, Charleston, Port Royal, Savannah, and Brunswick. From the West, rates were the same from Chicago to all Eastern ports, such as Jacksonville, Fernandina, Charleston, Port Royal, Savannah, and Brunswick; and in like manner from either Louisville or Memphis to the Eastern ports. These examples suffice to indicate the principle on which differentials were adjusted. As new roads were built, of course new places had to be considered. Thus, in 1886, the East Tennessee, Virginia & Georgia moved, in the Rate Committee, that the rates to and from Rockmart, Georgia, be the same as to Cedar-town, Georgia. The two towns were between ten and twenty miles apart, and were doing substantially the same business. The motion was lost, and the matter referred to the Executive

^{*}19 *Circular Letters*, 1687. In January, 1888, a committee was appointed by our Association to confer with the Joint Classification Committee of the Trunk Lines Association and others, for the purpose of ascertaining what possibility existed for establishing a uniform classification. But thus far none has been agreed upon; and it is questionable whether an agreement is reached at an early day, unless the Interstate Commerce Commission succeeds in bringing enough pressure on the roads.

Committee. There again it was lost, and referred to the Arbitrators, who finally directed that the rates to Rockmart be the same as to Rome and Cedartown.* At another time, in August, 1886, a question arose as to differentials on cotton from Atlanta to New Orleans and to Savannah. The old differentials had been 7 cents per 100 pounds in favor of Savannah. The motion now was to reduce this to 3 cents. The Arbitrators finally agreed on a compromise differential of 5 cents, the rate to New Orleans being put at 50 cents per 100 pounds, and that to Savannah at 45 cents.†

Before leaving the Rate Committee, a word may be said on some other features of the working of the Association, with which that committee was mainly concerned. It brought about a check to the free-pass evil. All the roads had been in the habit of issuing passes as a sort of premium on business. In 1884 they agreed to stop the practice, and the agreement has been substantially carried out. In 1887 a further step in the same direction was taken, the Executive Committee voting that passes to the car-tracers and agents of the refrigerator lines, which were liable to abuse, should be given up.

Next, as to the relations of the Association lines with outside lines. In its dealings with these, the Association has not always been lenient, especially when there was competition between its members and the outsiders. In the revised rules adopted in December, 1876, there was the following provision: "If any company owning or operating a line of transportation in connection with the roads or lines of companies, parties hereto, shall refuse to become a member of the Association, . . . such line shall, as far as practicable, be refused recognition as part of a through line."‡ This practically amounted to boycotting such lines. The provision for a boycott does not appear in the later agreement, though there have been recent cases where some such rule would, no doubt, have been very acceptable to the roads of the Association; as when the Chesapeake & Ohio was completed to Newport News, and again when the Kansas City, Memphis & Birmingham was built to

* 20 *Circular Letters*, 102, 114, 121, 467.

† 19 *ibid.* 2041; 20 *ibid.*, 47.

‡ 2 *ibid.*, 598.

Birmingham. These roads, being outside of the Association, often reduced the rates and materially affected the business. Following up the policy here indicated, the Commissioner, in August 6, 1877, issued a circular authorizing greatly reduced rates to Boston and New York and to the South Atlantic ports. The reason was that the steamship lines to and from these points had refused to co-operate with the Association in carrying out its rules. Within three weeks, all the steamship lines had signed the agreement, and rates were restored.*

Equally troublesome was the competition of the river steamboat lines. Often the differentials between two cities, such as St. Louis and East Cairo, were sufficient to allow the boats to cut rates, even after paying insurance. To prevent this, in the case referred to, the rates to East Cairo were advanced enough to make them the same as to Cairo, across the river, thereby reducing the differential between East Cairo and St. Louis two cents per hundred pounds on Classes C and D, and four cents per barrel on flour.† Rates to Selma and Montgomery from the East were cut in a similar way by the New York & Mobile Steamship Line. The Association changed their rates to stop this: a few months later, the competition being withdrawn, they were restored.‡

Next, let us turn our attention to the Board of Arbitration. The duties of the Board have already been referred to in a general way, and in treating of other subjects examples have incidentally been given of the exercise of their powers. It will be helpful to give other examples, illustrating the variety of cases which come before them.

Perhaps the matter that they had to consider most often was that of making divisions of the competitive business, of which one instance, the Montgomery and Selma pool settlement, was considered on page 82. We there saw that the business from these points was pooled from 1881 to 1883. Then, the East Tennessee, Virginia & Georgia becoming dissatisfied with its share, a year followed without the pool. But in 1884 a new division of the business was made by the Arbi-

*3 *Circular Letters*, 897, 931.

† 22 *ibid.*, 131.

‡ 22 *ibid.*, 21.

trators, whereby the East Tennessee got more nearly the share of the business which it demanded. In 1886 this question came before the Arbitrators again, but in a more complicated form.* In the first place, the East Tennessee renewed its claim for a larger share of the business from these points. This was refused in the case of Montgomery, but from Selma the East Tennessee got one per cent. in addition to its previous proportion. Next, when the annual convention was held, and the agreement presented as usual for signature, the Louisville & Nashville refused to sign, on the ground that balances to the amount of \$5,500 were still due it on the Montgomery and Selma pool. This amount was said to be due from the East Tennessee Road, which had lately gone out of existence by the foreclosure of a mortgage, becoming the East Tennessee, Virginia & Georgia Railway Company, and from which, in consequence, the money could not be collected. After having been debated in the Executive Committee, the matter was handed over to the Arbitrators to decide what balances, if any, were due, and how they were to be divided among the several roads. They agreed that the condition of the accounts before August 31, 1884, the date on which the second pool went into effect, was too confused to admit of any unravelling. Hence all balances before that date were considered cancelled and discharged. On the business after that date, they decided that a balance of \$3,700 was due the Louisville & Nashville, of which the East Tennessee should pay \$976. These had been the precise amounts given in the accounts of the Commissioner.†

Another typical case, showing the usefulness of the Arbitrators in allotting business, came up in connection with the traffic of Memphis and Nashville. There had been no previous division of the business to these points, and rates had been irregular for a considerable time. Finally, in the summer of 1885, an agreement was made by the East Tennessee and the Louisville & Nashville Roads, the competitors for the business, to maintain rates, and ask the Arbitrators to allot the business. This allotment was made, and accepted by both roads.‡

*20 *Circular Letters*, 53.

† 19 *ibid.*, 2048; 20 *ibid.*, 55.

‡ 17 *ibid.*, 1490.

Another case, of a somewhat different sort, was brought up by the Louisville & Nashville* at a later period. Under the terms of the agreement, the initial lines from any point "shall determine the subdivisions of its business among its connections." The Louisville & Nashville claimed that it was not receiving from the Atlanta & West Point, with which it connected, its fair share of the Atlanta cotton, and so demanded an apportionment, extending back to 1877, or at least to 1884-85. The two claims differed only in regard to the dates. In regard to the second, it was decided that a fixed share of the Atlanta & West Point business should be given to the Louisville & Nashville, the share to be determined by the Auditors' accounts.† In regard to the other, no division was allowed, on the grounds that previous to January 17, 1883, the part of the Louisville & Nashville for which this claim was made had not been a member of the Association; that until 1884 it would not have been obliged to pay over the receipts from any excess that might have fallen to it, and so should have no claim for a deficit of freight carried.‡

At another time, cotton was shipped from a local station to Montgomery, a competitive point, on a local bill of lading, and then reshipped. This was held to be subject to the regular pool divisions of Montgomery, according to the agreement, by which "all business from or to a crossing or meeting point of two or more roads is joint traffic." §

A peculiar dispute, important as illustrating one of the articles of the agreement, came before the Board in 1887.¶ It is spoken of here because closely connected with the matter of allotting business. Complaint had been made that the East Tennessee Road had carried some cotton from Selma which it had failed to report for division. In answer, it was stated that the cotton in question had been refused by the Western

* 20 *Circular Letters*, 263.

† 20 *ibid.*, 469.

‡ These cases are interesting in another way. The Louisville & Nashville were dissatisfied with the decisions given, and asked for a reopening of the matter. Although such a thing may be allowed, and at times has been allowed, the Arbitrators at this time did not see fit to grant the rehearing. 21 *ibid.*, 1107.

§ 18 *ibid.*, 205.

¶ 22 *ibid.*, 155.

Railroad of Alabama and others. The Board held that, according to Article 19 of the Agreement, this cotton should be eliminated from the pool, and need not be reported. Article 19 reads that "each company shall be required to carry, as nearly as possible, its allotted proportion," but "no penalty shall be imposed upon a company or line which carries an excess for the benefit of any company that refuses or wilfully neglects to carry its allotted proportion." The object of the article was, of course, to keep all the roads in the market. Its effect was to maintain competition, notwithstanding the pool.

Next in number, but less varied in character, are the cases relating to rates and differentials. Some of these have already been noted. The dispute on New Orleans and Savannah differentials, and the difficulties that arose in regard to steamship competition on Ohio and Mississippi River points, were in the end settled by the Board. Another, of a typical sort, referred to the rates on iron from Birmingham and Chattanooga to St. Louis. The Kansas City, Memphis & Birmingham Railroad (not in the Association) had lowered the rate from Birmingham to St. Louis. This was followed by a similar reduction by the Association, but without a corresponding reduction in the Chattanooga rates. On reference to the Arbitrators, it was decided that the old differential of \$0.25 between Chattanooga and Birmingham should continue in force, and that any reduction in the rates from Birmingham should carry with it a corresponding reduction from Chattanooga.*

The Board of Arbitration have also had to consider various other questions. Points in regard to classification have arisen, as in regard to the classification of cotton goods, the products of Southern mills. These goods, which had been favored from the outset by a low classification, were raised in 1887 from the sixth to the fourth class, thereby removing in part one of the "protective" features of the system. Even after this change the rates were not the same both ways. Cotton factory goods South-bound went first class at \$1.14 per 100 pounds, New York to Atlanta. Southern factory goods

* 22 *Circular Letters*, 363.

North-bound paid now, as fourth class, instead of 49 cents, 73 cents. "But for the fact," the Arbitrators said, in giving their decision, "that finer fabrics shipped South-bound, some of them without discovery, are of higher value than those shipped North-bound, the still existing inequality would be unjustifiable."* Another minor matter which has come before the Board has been the question of insured bills of lading. The agreement provides, in Article 21, that, "in cases of competition between all rail lines and water or combined water and rail lines, the latter may assume the whole burden of insuring against marine risks; and bills of lading to that effect may be issued." The Arbitrators decided that such insured bills of lading could be issued in competition with all rail lines only, the privilege not applying between two combined rail and water lines.† Another decision was as to what were "initial roads" under the agreement. It was held that the phrase "initial roads" is not used in distinction to "terminal roads," but that the responsible road at any given point was the initial road.‡ Still another decision was in regard to "milling in transit," which was held to be a form of rebilling, and hence prohibited.§

These cases have been cited, not because in themselves of great importance, but because they show the great variety of matters which the Arbitrators had to deal with. They are all types of cases that come up often. They include, either directly or indirectly, nearly all the matters over which the Association had control. The task of the Board has been by no means an easy one. There were many masters to please, but it has performed its functions without even a suspicion of dishonesty or partiality.

We have thus far been considering in detail the organization and workings of the Association as it existed down to 1887. It now remains to note the changes which were brought about by the Interstate Commerce Act passed in that year. The Act, first of all, stopped the pooling feature of the Association. The twenty per cent. deposits were no longer

* 20 *Circular Letters*, 261; 21 *ibid.*, 1105.

† 16 *ibid.*, 45.

‡ 18 *ibid.*, 203.

§ 20 *ibid.*, 259.

called for, and the payment by one road to another of any excess of earnings above allotment was put an end to. The daily reports of business and the monthly tables, however, were still continued. The act also required some readjustment of rates. While each road reported its rates to the Interstate Commerce Commission directly, and aimed to keep them, as nearly as possible, in line with the decisions of that Commission, yet the through rates were, in the main, discussed and arranged as before by the Rate Committee of the Association. At first the committee of the Association had some difficulty in arranging rates so as to compete successfully with the river lines, and therefore asked for and obtained a suspension for ninety days of the long and short haul clause of the act. The delay was asked mainly to give time for rearranging the rates without disturbing more than was necessary the interests of the shippers. In making the rearrangement, a partial reclassification was necessary; and the number of places to which through rates were made was somewhat reduced, in order to get more nearly in line with the requirements of the law. The Association was recognized by the Interstate Commerce Commission, and on several cases has been summoned to appear before it for examination.* Complaints have also been brought against the Association before the Commission for illegal rates. At times the roads over which the rates in question were given were joined as codefendants, but this has not always been the case.

The prohibition of pooling by the Interstate Commerce Act by no means put an end to the power of the Association. It still continues, having for its object the saving of revenue by the maintenance of rates. Though pool divisions may no longer be made use of, fines may be imposed to accomplish the same end. A recent case will serve to show how this is done.

In the adjustment of rates from Eastern cities to South-eastern points, it happened that a combination of "locals" from Baltimore to some of these cities was less than the through rates. This was not true from any other city. The business, however, from Baltimore to the points in question

* 3 *Interstate Commerce Reports*, 7.

was so small that the differences amounted to nothing. One road, without consulting the Commissioner, reduced the through rates to this combination of locals, thereby affecting all through rates from New York and Philadelphia to these South-eastern points. The Interstate Act requires that notice of reductions of rates must be filed in the office of the Commission at least three days before they can go into effect; for the Southern Railway & Steamship Association territory the practice is that all changes are made by the Rate Committee, and notice is given at Washington by the Commissioner. The road in question filed notice of reduction itself with the Interstate Commerce Commission, and then notified the Commissioner of the Southern Association of the intended change. That officer at once notified the other roads interested; but these protested against the reduction as unnecessary and unwise, and asked that the rates be not put into effect until the matter could be brought before the Rate Committee. Notwithstanding these remonstrances, the rates were put into force as originally planned. Thereupon one road, connecting with a water line, in retaliation issued insured bills of lading; another refused to authorize the reduced rates except upon order of the Commissioner of the Association. Permission to use them was given by the Commissioner; but, as the rates were not officially announced by him, the road still refused to use the reduction or honor bills of lading given at the reduced rates. The matter was very soon brought before the Executive Committee in the shape of a complaint. It was referred by them to the Arbitrators, who, after a full hearing, ordered the original rates to be restored and the offending road to pay a fine of \$5,000. The fine was paid, and rates were restored within three weeks after the original reduction.

This brings the Association to date. Let us now glance at its effects on the roads and on the public.

There can be no doubt that it has been of great benefit to the roads. It has secured the maintenance of rates, and an adjusted share of business to each line. The stronger lines would perhaps have survived without this division, but hardly the weaker. As to the public, the regularity of rates has

helped the growth of the country, and this has reacted in turn to the benefit of the roads. The traffic has increased enormously. The amount of cotton carried North from all pooled points has more than doubled from 1877-78 to 1885-86. In 1877 it was 297,284 bales; in 1885-86 it was 664,337.* The amount of merchandise South-bound has increased in the same time from seventy million pounds to nearly one hundred and fifty million. The total of merchandise carried South in this time to all pooled points was 1,285,928,199 pounds, with a revenue of \$8,747,564. The total cotton revenue in this time was \$10,905,000. During the same period, the General Commissioner's deposits, referred to above, were \$1,636,270.

The regularity of rates under the Association is the advantage to the public most distinctly due to its existence. Changes in rates have been comparatively few, and secret rebates rare. Such changes as took place have been almost uniformly downward; and, as reasonable notice of these has been given, there has been no offset to the public's gain such as sudden and fluctuating reductions bring. The figures in the note show the steady downward trend of rates, and prove at least that the effect of the Association was not to maintain rates at any fixed high figure.† Certainly, that part of the public which had to do directly with the roads in the Association was not dissatisfied with the working of the pool. In 1887 the General Commissioner was able to say at the annual convention, "There has been literally no complaint of discrimina-

* 21 *Circular Letters*, 1626.

† The rates, in cents per hundred pounds on numbered classes, from Eastern cities to Atlanta on the first of January of each year, have been:—

Year.	From Boston, New York, Philadelphia.						From Baltimore.					
	1	2	3	4	5	6	1	2	3	4	5	6
1875	170	140	110	90	80	70	160	130	100	85	75	65
1876	170	140	110	90	80	70	160	130	100	85	75	65
1877	145	125	100	80	60	50	135	115	90	75	55	45
1878	145	125	100	80	60	50	135	115	90	75	55	45
1879	125	110	85	75	60	45	119	104	79	71	56	41
1880	125	110	85	75	60	45	119	104	79	71	56	41
1881	126	110	94	81	65	41	119	104	89	76	61	46
1882	100	90	80	70	58	48	95	85	75	65	55	45
1883	125	108	93	78	63	49	118	102	88	73	59	46
1884	114	98	86	73	60	49	107	92	81	68	56	46
1885	114	98	86	73	60	49	107	92	81	68	56	46
1886	114	98	86	73	60	49	107	92	81	68	56	46
1887	114	98	86	73	60	49	107	92	81	68	56	46

tion between individuals in the same locality, and very little (and that unreasonable) between localities." *

In conclusion, a word may be said of the effect of the Association in maintaining rather than suppressing competition among the roads. Pools of which this is a type do indeed limit competition. But it is a great mistake to suppose that they destroy competition. On the contrary, as Professor Seligman puts it,† "they maintain the advantages of a healthy competition. Each of the roads will still attempt to procure as much business as can possibly be obtained in a fair and open manner." The agreement of the Southern Railway & Steamship Association was renewed yearly, and most of the contracts for division of business were made for a year at a time. Each road tried to carry as much freight as possible, so that, when the next contract came to be made, it might demand with some show of reason a larger share of the business. It is competition of this sort that is advantageous, not competition with little or no regard to the cost of doing the work.

HENRY HUDSON.

* 21 *Circular Letters*, 1620.

† In the *Political Science Quarterly*, vol. ii. p. 389.